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## HONG KONG BUDGET SUMMARY 2009/10

On 25 February 2009, John Tsang, the Hong Kong Financial Secretary, announced the 2009/10 Budget. This, his second Budget, was very different from last year's (when enjoying record surpluses) with a few new measures announced on top of the already proposed economic stimulus measures

which had been promulgated previously by the Government. This TechNews summarizes the new Budget, best described as being financially prudent in difficult economic times, and the prevailing economic situation in Hong Kong.

### Macro Economic Highlights

	2009/10	2008/09	2007/08
Consolidated surplus/(deficit) HK\$ billion			
Forecast	(39.9)	(7.5)	25.4
Revised forecast/actual	-	(4.9)	115.6
	2009	2008	2007
Economic growth (GDP) %			
Forecast	(2-3)	4-5	4.5-5.5
Revised forecast/actual	-	2.5	6.4
Underlying composite CPI %			
Forecast	1.6	4.5	1.5
Revised forecast/actual	-	4.3	2.0

- Forecast GDP over the period 2010 to 2013 is estimated to be 3.5% per annum in real terms
- By 31 March 2014 the Government is projecting fiscal reserves of around HK\$391 billion, representing 19.9% of GDP for that year
- Operating expenditure, which is kept below 20% of GDP, is forecast to be HK\$260 billion for 2008/09, and is projected to increase to HK\$276.4 billion in 2013/14
- As a result of the planned stimulus packages, the Government is estimating an operating budget deficit of HK\$9.8 billion in 2009/10, reducing to HK\$4.4 billion in 2011/12 with a return to operating surplus in 2012/13, though with a forecast consolidated deficit of HK\$1.3 billion for 2013/14
- The growth rate has fallen from 7.3% in the first quarter of 2008, to 4.3% in the second quarter, 1.7% in the third quarter, and to a negative 2.5% in the fourth quarter. For 2008 as a whole, GDP grew by 2.5%, lower than the growth rate over the past 10 years



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## Economic Turmoil & Job Creation Schemes

Recognizing that Hong Kong has been hit by the global financial turmoil, the Financial Secretary stated Hong Kong was slipping into recession (the economy shrank by 2.5 per cent in the fourth quarter of 2008). The main focus of the Budget was to preserve jobs by improving the economy and measures were announced to increase Government expenditure to create some 62,000 new positions (see table below). This was in addition to the 60,000 new jobs pledged by the Hong Kong Chief Executive, Donald Tsang, in January 2009, mostly through fast-tracking infrastructure projects. The total 120,000 or more new jobs amount to about 4 per cent of the working population.

Measures	Provision (HK\$m)	Number of jobs/ internships
Training and employment opportunities for middle-aged and disabled persons	400	44,000
Internship programmes for university graduates	140	4,000
“Operation Building Bright” Maintenance of 1,000 dilapidated buildings	700	10,000
Promoting Hong Kong as an events capital of Asia to attract more tourists	100	2,800
Promoting community involvement activities, the 2009 East Asia Games and the 60th anniversary of the founding of the PRC	78	260
Education programme on Internet use	63	500
Enhancing energy efficiency of Government buildings and public facilities	130	200
<b>Total</b>	<b>1,611</b>	<b>61,760</b>

## A Green Budget : Sustainable Economic Development

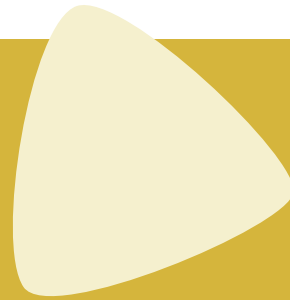
The Financial Secretary used words like “Green”, “Sustainable” and similar environmentally friendly phrases numerous times; for instance, he stated that the Pearl River Delta is to be transformed into a “Green and quality living area” in conjunction with the Guangdong Provincial Government but only general intentions were suggested as to how this would be achieved. However, specific reference was made to promoting the use of electric vehicles, including a continued waiver of the First Registration Tax for such vehicles as well as incentives and subsidies to promote energy efficient buildings.

### Stimulus Measures

There were, as last year, a few give aways such as modest rebates on domestic electricity tariffs, a limited waiver of two quarters of Government rates, a 20 per cent rent reduction for residential tenants of Government provided accommodation, and a 50 per cent rebate of Salaries Tax but limited to HK\$6,000 per tax payer. It should be noted that last year only 1.4 million of Hong Kong’s population paid Salaries Tax out of a work force of about 3.5 million. As these stimulus measures were less than those announced in the 2008/09 Budget, their impact is likely to be modest. All other Government taxes, duties, fees and charges related to peoples’ livelihood were frozen at the 2008/09 levels.

### More Concrete Proposals

The Financial Secretary also stated that further infrastructure projects would be undertaken (some of which were included in earlier Government pronouncements) amounting to HK\$39.3 billion in 2009/10, as well as continuing studies of / commitment to health care reform. The Budget also introduced a 50 per cent hike in tobacco tax which was billed as being for public health reasons and was the sole revenue raising measure announced.



### Aspirational Goals

In addition, there were references to developing the bond market by Government issuance of bonds, development of Islamic finance by modifying the tax rules, regulation reforms of financial intermediaries, more work on double tax treaties and tourism development but few details of these proposals were unveiled so it remains to be seen what specific policy initiatives will be introduced.

### Conclusion

Whilst the numbers of new measures announced was less than some had expected, given the Government's huge fiscal reserves, Hong Kong is well placed to enact further measures if necessary.



### NEWS FLASH - CHINA BUDGET

#### **China announces RMB950 billion budget deficit for 2009**

*On the opening day of the annual session of the National People's Congress in Beijing on 5 March 2009, the Chinese Premier Wen Jiabao announced that China would run a RMB950 billion budget deficit for 2009, the highest in the country's history.*

*Whilst this represents less than 3 per cent of China's GDP, the Chinese Government expects that it will stimulate local demand, help revive the flagging economy and act as a catalyst for job creation. This can only be good news for Hong Kong given its close economic integration with the Chinese economy.*



### MAJOR INITIATIVES AND GIVE AWAYS

#### Major Tax Concessions

- One-off tax reduction of 50% of Salaries Tax and Tax under Personal Assessment for 2008/09, subject to a ceiling of HK\$6,000
- Rates waiver for the first two quarters of 2009/10 subject to a ceiling of HK\$1,500 per quarter for each rateable tenement
- 20% rental reduction for most Government properties and short term tenancies of Government land for 3 months
- Extension of the freeze on Government fees and charges related to people's livelihood until 31 March 2010

#### Other Major Initiatives and Proposals

- Job preservation and the provision of HK\$1.6 billion to create around 62,000 jobs and internship opportunities in the next three years
- Consolidation of Hong Kong's position as a major international financial centre through various measures including the development of the local bond market by issuance of Government bonds, modifying the tax rules to create a level playing field between conventional products and Islamic financial products and extension of the network of international tax agreements
- Diversification of Hong Kong's economic base through promotion of initiatives such as sustainable economic development and the growth of creative industries (HK\$300 million has been earmarked for the promotion of culture and art)
- Continued investment and acceleration in the implementation of major infrastructure projects
- Increase in tobacco duty by 50% with immediate effect

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## 2009/10 PRINCIPAL TAX RATES CARD FOR HONG KONG

The following tables summarize the principal tax rates for Hong Kong, with changes highlighted in bold italics.

### Tax Rates

	2009/10	2008/09		2009/10	2008/09
Salaries Tax			Profits Tax		
Progressive rates			Companies	16.5%	16.5%
Chargeable income	Chargeable income		Unincorporated businesses	15%	15%
First HK\$40,000	2%	First HK\$40,000	2%		
Next HK\$40,000	7%	Next HK\$40,000	7%		
Next HK\$40,000	12%	Next HK\$40,000	12%		
On the remainder	17%	On the remainder	17%		
Standard rate	15%	15%	Property Tax		
			Non-corporate owners	15%	15%
			Corporate lessors	16.5%	16.5%

### Personal Allowances and Deductions

	2009/10 HK\$	2008/09 HK\$		2009/10 HK\$	2008/09 HK\$
Personal allowances:			Dependent parent/grandparent (aged between 55-59):		
Basic	108,000	108,000	Not residing with taxpayer	15,000	15,000
Married	216,000	216,000	Residing with taxpayer	30,000	30,000
Single parent	108,000	108,000	Deductions:		
Child:			Maximum deduction for amount paid for:		
1st to 9th child (each year of birth)	100,000	100,000	Self-education expenses	60,000	60,000
other years	50,000	50,000	Home loan interest	100,000	100,000
Dependent brother/sister	30,000	30,000	Elderly residential care expenses	60,000	60,000
Disabled dependent	60,000	60,000	Contributions to recognised retirement schemes	12,000	12,000
Dependent parent/grandparent (aged 60 or above):			Charitable donations	35% of assessable income	35% of assessable income
Not residing with taxpayer	30,000	30,000			
Residing with taxpayer	60,000	60,000			

### Stamp Duty

	2009/10	2008/09		2009/10	2008/09
On Sale or Transfer of Immovable Property in Hong Kong			On Hong Kong Stock	0.2%	0.2%
Property consideration			On Hong Kong Bearer Instrument	3%	3%
Up to HK\$2,000,000	HK\$100	HK\$100	Capital Duty on Nominal Share Capital	0.1%	0.1%
HK\$2,000,001 - HK\$3,000,000	1.50%	1.50%	(Capped at HK\$30,000 per transaction)		
HK\$3,000,001 - HK\$4,000,000	2.25%	2.25%			
HK\$4,000,001 - HK\$6,000,000	3.00%	3.00%			
HK\$6,000,001 and above	3.75%	3.75%			

### Liquor and Tobacco

	2009/10 Duty rate	2008/09 Duty rate
Liquor with alcoholic content above 30%	100%	100%
Wine	0%	0%
Beer and other types of liquor with alcoholic content not exceeding 30%	0%	0%
<b>For each 1,000 cigarette sticks*</b>	<b>HK\$1,206</b>	<b>HK\$804</b>
<b>Cigars per kg*</b>	<b>HK\$1,553</b>	<b>HK\$1,035</b>
<b>Chinese prepared tobacco per kg*</b>	<b>HK\$296</b>	<b>HK\$197</b>
<b>Other manufactured tobacco not intended for cigarettes per kg*</b>	<b>HK\$1,461</b>	<b>HK\$974</b>

(\* The increase takes immediate effect)

### Business Registration Fees

	2009/10 HK\$	2008/09 HK\$
<b>1-year certificate fee + levy</b>	<b>2,450</b>	<b>450</b>
<b>3-year certificate fee + levy</b>	<b>6,550</b>	<b>4,550</b>

(Only the fee of HK\$2,000 pertaining to 2008/09 has been waived and not the levy for the Protection of Wages on Insolvency Fund.)

Note: Legislative proposals do not become law until their enactment and may be modified by the Legislative Council before enactment.

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